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First Quarter Letter
July 20, 2018

Dear Clients and Friends,

I try not to bombard you with emails, calls, texts, or random thoughts. That's kind of a core reason of why I'm here - dealing with stuff you don't want to do and/or don't want to hear about. No, the only real direct bombardment I've committed to is trying to say something of value to you *quarterly*. That's exactly four times per year where I need to go to the well and think about what might be useful to share with you as the client and me as the advisor. I still really like the idea of picturing it as being a personal financial filter, where I only allow the most important pieces of information to make it your way.

Sometimes it's hard to find something worthy of saying. Most of my letters are various forms of me saying "don't do anything." Or investors should "stop doing this." Not much of "do this…" This quarter I have something to share that comes from the financial planning process: **Rounding down**. Let me explain.

I'm as big a proponent as any when it comes to not trying to time the market, not trying to pick winning stocks, and not trying to look smart. Truly, the winning investing strategy is, as I wrote an entire quarterly letter about, *trying to avoid being stupid*. That's why I share this tidbit with some reservation - it could be seen as trying to be smart. But it's not, I assure you.

So what do I mean by "rounding down?" Simple: When I am going to recommend something to a client and it's close to a 50/50 split whether to be aggressive or conservative with regard to that certain subject, I am "rounding down" to the more conservative option. It's intuitive to use the economic cycle as a tiebreaker and I'm willing to go on the record by saying that it makes more sense to lean toward a little more safety versus hitting the gas pedal right now. The opposite has been the status quo for some time, but now I feel it has switched. Examples:

- If I can't decide whether a 60%/40% stock/bond portfolio is more appropriate versus an 80%/20 portfolio, the decision is easy right now: Round down, 60/40 it is.
- When it comes to paying off debt or investing extra cash in the hopes of earning more than a stated interest rate on the loan? Round down, pay off the debt.
- Recommend a three-month stockpile of emergency savings, or six months? Simple: Round down when it comes to spending, boost the emergency account to six months.

These are just a few examples, but you probably get the point. This "round down" period is naturally following a "round up" period, where it made sense to be a little more aggressive as the economy was recovering and the bull market was young. Now, for various reasons I won't blather on about, I feel we're in a perfect spot to be rounding down.

Important: This doesn't mean there needs to be a comprehensive portfolio rebalancing act where it's time to hop in the investment bomb shelter because I'm expecting imminent doom and gloom. That much needs to be made clear. I cannot ever see myself recommending such a drastic change. We are expecting doom and gloom to pop its head in from time-to-time. Your portfolio is allocated with that in mind and it is baked into the expectations. But as things change

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and updates are needed, maybe we do end up “rounding down” somewhere in your financial life over the coming year, or maybe we won’t. Mostly, when new developments arise we will simply choose the more conservative route. That’s all. To be clear, this is *not* a bold proclamation or an urgent warning.

I *will* issue a bold proclamation and an urgent warning to the Seattle Mariners: Get some help in the bullpen before the trade deadline or risk breaking my heart in October for the seventeenth year in a row. (I also promise to stop my obsession with mentioning the Mariners if they ever make the playoffs)

Have a question about this topic (“rounding down,” and not the Mariners)? Just let me know. I’ll gladly try to explain it in a different way.

As always, thank you for your trust.

Sincerely,

Tyler